DOCUMENT RESUME

| | | |
|---|---|---|
| ED 456 900 | | PS 029 721 |
| AUTHOR | Monroe, Helen | |
| TITLE | Community Endowment Funds for Early Care and Education. Technical Report. | |
| INSTITUTION | Lumina Foundation for Education, Indianapolis, IN. | |
| SPONS AGENCY | David and Lucile Packard Foundation, Los Altos, CA. | |
| PUB DATE | 2001-07-00 | |
| NOTE | 37p.; For supplementary technical reports, see PS 029 719-720 and PS 029 722. | |
| AVAILABLE FROM | Lumina Foundation for Education, P.O. Box 7039, Indianapolis, IN 46207-7039. Tel: 800-834-5756 (Toll Free). For full text: http://www.luminafoundation.org./Publications/research.shtm. | |
| PUB TYPE | Reports - Descriptive (141) | |
| EDRS PRICE | MF01/PC02 Plus Postage. | |
| DESCRIPTORS | *Community Programs; *Day Care; *Early Childhood Education; Educational Finance; *Endowment Funds; Family Financial Resources; *Financial Support; Fund Raising; Models; Private Financial Support | |

ABSTRACT

Noting that most early care and education programs do not have adequate resources to achieve high quality, this report examines the potential of community-based endowment funds for early care and education. Section 1 of the report provides general background information about endowments, their uses, characteristics of successful endowment-building organizations, human resources for endowment-building organizations, and challenges in building endowments. Section 2 focuses on factors associated with successful endowment fundraising, including setting realistic goals, identifying prospective donors, obtaining assistance from others, and preparing for and sustaining solicitation activities. Section 3 details lessons for the early care and education field, describes current experiments in creating community-based endowments for early care and education, and discusses challenges and opportunities in developing such funds. Section 4 details potential models for early care and education endowment funds, including a field-of-interest fund, a designated fund, and a free-standing endowment fund. Section 5 of the report discusses factors to consider in assessing the feasibility of developing a community-based endowment fund for early care and education, focusing on community characteristics such as income and wealth, as well as readiness. Section 6 presents steps to establishing endowments, including research and preparation, setting of reasonable endowment goals, implementation of the endowment, and identification of resources for building endowments. The report concludes by asserting that an early care and education community endowment fund has potential as a long-term strategy for generating revenue for early care and education and that once established, endowment funds could be one source of revenue in a coordinated early care and education finance system. (KB)

# LUMINA
FOUNDATION FOR EDUCATION

TECHNICAL REPORT

# Community Endowment Funds for Early Care and Education





Helen Monroe • July 2001
(Supplement to the "Learning Between Systems" project)

# Community Endowment Funds
# For Early Care and Education

**Technical Report**

**Learning Between Systems:**
**Adapting Higher Education Financing Methods to Early Care and Education**

**by**

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**July 2001**



**Supported by a grant from the David and Lucile Packard Foundation**

## Table of contents

## Foreword

Endowment Development Institute assisted the *Learning Between Systems* project by investigating the feasibility of establishing community-based endowment funds for early care and education. The purpose of such funds would be to generate revenue to use as direct support to early care and education programs and as financial aid for families. In studying the potential of endowment funds to produce income for these purposes, we also sought to identify critical elements essential to the success of such funds.

Why establish endowment funds for early care and education? High-quality early care and education is a critical service that provides young children a good start in life that helps them to succeed in school, allows parents to work to support their families, and produces enduring benefits to society. These benefits, research tells us, accrue only with participation in good quality programs; poor-quality programs can produce negative effects. The problem is that most early care and education programs do not have adequate resources to produce high-quality programs. Building endowment funds that could produce new sources of revenue for early care and education is one of several financing methods used in higher education that was explored in the project, *Learning Between Systems: Adapting Higher Education Methods to Early Care and Education*.

Community-based endowment funds, rather than endowments for individual early care and education programs are the focus of investigation. From the outset, establishing endowment funds at every early care and education program seemed an unlikely strategy. While there are fewer than 4,000 higher education institutions, there are well over 100,000 early care and education centers—most without the development and administrative expertise such an undertaking would require. Moreover, the expense of establishing and maintaining a fund and the relatively small number of children served in each early care and education program suggest that it would be both inefficient and ineffective, if not impossible, for each program to accomplish. An alternative—a community-wide early care and education endowment fund—was thus conceived, and it is this idea that we explored.

Some early childhood programs and organizations may have the capacity to establish endowment funds on their own to sustain their operations, and could find the information presented here useful. However, we encourage early care and education advocates to consider the potential benefits of an endowment fund that is aimed at supporting the quality and sustainability of all of a community's early care and education programs and to removing financial barriers that keep families from enrolling their children in high-quality programs.

Teresa Vast
Project Director,
*Learning Between Systems: Adapting Higher Education Financing Methods to Early Care and Education*

## Preface

Many organizations want to have endowments. Most wish that folks would leave them bequests. And all think an endowment may solve their money problems. Unfortunately, building endowments is not achieved through wishes.

Building an endowment for your organization is one of the most important steps you can take to help assure the financial future of the cause you support. While it is not difficult to do, it does require commitment to the goal, constancy of purpose, and a disciplined execution. The strategies and techniques outlined here give some practical considerations about the prospects for successful endowment building. But much of the strategy is art rather than science. There are no absolute rules to guide the process, and each organization will find success in ways not anticipated and sometimes not planned. I hope this discussion of endowment building stimulates your organization and its volunteers to understand that the best way to succeed is to begin, and that countless others have found success through force of will. Remember the Chinese proverb: *A journey of a thousand miles begins with one step.*


## Acknowledgments

I would like to thank those who so candidly shared information with me about the successes and challenges of their programs. It is often difficult to honestly discuss programs that are funded by foundations because acknowledgement of less-than-perfect success feels threatening. If grant-making is to be successful, it must be a partnership between grantor and grantee, with both sides capable of recognizing where modifications and improvements will improve the results. My interviews helped provide this information and I hope the reader will realize benefit from the resulting information in this report.


Helen Monroe

July 2001

## Overview of the report

In this report, general background information about endowments and endowment-building is provided as a backdrop to our exploration of the feasibility of developing community-based endowment funds for early care and education. This general information in the first two sections of the report will be useful for any organization interested in building an endowment to sustain its operations. Next we consider building early care and education endowment funds and describe models for such funds. The final two sections of the report suggest steps communities can take to assess feasibility and establish early care and education community-based endowment funds.

## Endowment basics

Endowments are no longer limited to the narrow idea of wealthy families creating philanthropic foundations in their own names. Today many institutions and organizations create endowments to sustain their activities. An organization that has an endowment is viewed as financially stable and forward thinking. It is identified as having a complete range of strategies for its development and the capacity to accept planned gifts. An endowment fund provides an attractive option for individuals to make sizeable contributions that can have an impact for generations to come.

Americans are generous givers -- when they believe in the cause. Higher education and cultural institutions frequently receive major gifts from individuals who have graduated or benefited from their programs and then wish to "give back"—to contribute to the institution's ability to make a difference in the lives of others.

### *What is an endowment?*

An endowment is defined as a pool of capital invested to produce income. A portion of income earned (not the principal) is distributed to charitable organizations in support of their activities, operations, special projects or new ventures. There are two basic forms of endowment. A *true endowment* is created through a written agreement with a donor who restricts the use of the funds to only the investment earnings. A *quasi-endowment* is a fund designated for a specific purpose by board resolution. The purpose of a quasi-endowment, unlike a true endowment, can be changed by subsequent board resolution.

The definition of endowment from case law is hundreds of years old. It defines endowment as donor funds held "in the public trust." Any written or oral communication with a donor is, in effect, a contract with the donor to treat *only the earnings* as expendable. When discussing, soliciting and accepting endowment gifts, the charity must scrupulously represent the use and treatment of the gift. In 1972 the Uniform Management of Institutional Funds Act (UMIFA) was created to govern the handling of endowments. Each state decides whether to adopt this legislation (in whole or part) and determines what to call the legislation.

Most endowments grow through bequests: Donors, beneficiaries, and other constituents of the organization leave something in their will for the organization. Bequests are the most basic

building block of a planned giving program and should be incorporated by all organizations, whether they hold endowments or not. Planned gifts are suggested as endowment contributions because the receiving organization does not base its annual budget on receipt of these gifts. Because it is generally unpredictable as to when these gifts will "mature," the wise organization neither counts them nor anticipates spending them -- thus the argument for bequests and other planned gifts to be placed into an endowment fund.

### *Uses of endowments*

Virtually all organizations use endowment earnings to help defray operating expenses for programs, management, and facilities, considering this use the primary importance of an endowment. Endowments stabilize the income of an organization and assure some portion of annual budget, providing relief to volunteers and staff.

Some organizations use their endowment for special types of projects. For example, the United Way may support special projects outside of their operational commitment to member organizations. Revenue from endowments in higher education institutions is used for diverse purposes, including capital improvement projects, enhancement of educational offerings, and financial aid. It is also common for colleges and universities to have endowments for named chairs in specific departments. While the endowment serves as a portion of annual operations of that department, it is frequently an honorary commitment by the institution for some special research or development area.

Some organizations use their endowment more as a reserve account, especially in the early years when the earnings are modest. They address building a larger endowment for the organization through the return of all earnings to principal in early years.

The most farsighted of charities often specify their cause, not their organizational name, as the long-term beneficiary of the endowment. For example, an early care center might designate its endowment as operating expenses for its own organization as long as its organization exists. Should the organization cease to exist, the endowment will sustain the activities of others who are providing services for early care and education. This vision and breadth of services adds a dimension of security and farsightedness that proves attractive to many donors.

### *Common elements of effective endowment-building organizations*

To build an endowment as one aspect of an overall development program is a key strategy of organizational development. The appropriate expertise and knowledge of endowment investments, policies, procedures, operations, and restrictions are critical. Organizations that create effective endowments typically are financially stable, plan for the future, exercise wise stewardship, are trusted by their donors, and are aware of regulations covering any changes in the purpose of the endowment (*cy pres*[1]).

[1] *Cy pres* means 'the next most similar' For example if an organization or program ceases to exist, a foundation is required by law to exercise its judgment in finding the next most similar cause to which it can make contributions to fulfill the donors' intent to support the programmatic areas of interest.

A history of *financial stability* is a prerequisite for endowment building. It is impossible for an organization that is on the brink of insolvency to raise an endowment. At a minimum, an organization must have the ability to meet its core operating expenses on a relatively secure basis annually. This does not mean that operating income is guaranteed, but rather that it has a history of being able to sustain its annual operations.

In addition, an organization must be able to develop an appropriate *donor base* from individuals and occasionally from foundations. The organization should have a base of annual contributors, experience in fund raising for capital or program expansion, an established communication program with donors and a current list of clients or beneficiaries for future support.

Establishing an endowment requires active solicitation and a strong *commitment* by the board, staff, and volunteers of the organization. Most organizations are consumed with fund raising for their annual program and operating budget and cannot see how they will have the time to add endowment-building to their workload. Volunteer leadership and appropriate staff support are crucial.

Receipt of endowment funds can have an important psychological impact on the board and staff of the organization. The endowment may create a sense of pride and accomplishment that helps to fuel fund-raising efforts and perhaps even attract additional donors.

*Successful endowment-building organizations*

Higher education, cultural organizations and community foundations are examples of the diverse types of organizations that share these essential characteristics. While similar in this respect, the differences among them are also noteworthy in understanding their success in establishing effective endowments.

*Higher education institutions* are old hands at building endowments. Administrators have contact with their alumni and others who feel an emotional tie to the institution. Access to their graduates, excitement of new programs, and commitment by board and staff to the long-term financial stability and growth are key ingredients that give colleges and universities the success they achieve in building endowments.

*Cultural institutions* are also effective at building endowments. They enjoy a long tradition of support among those with a high degree of discretionary income. Typically, museums, symphonies, theaters, and cultural arts organizations raise endowments to continue and expand their programs. Personal involvement and contact is often desired by donors and available through the institution. This is one element of endowment-building that other types of organizations find challenging to provide.

Other than educational or cultural institutions, the fastest growing endowments today are in *community foundations*. These are broad-purpose organizations holding collections of individually endowed gifts for both specified and general use in the community foundations' defined geographic area.

Significant to their success is board members' leadership in raising endowments, especially in newer and smaller foundations. Outreach by a community foundation is often aggressive and targets key markets. Because the institution operates no programs nor provides any services, it

has few annual operating expenses. Finally, these foundations understand the need for patience in building long-term success through planned and deferred gifts.

Some endowment funds are neither organizationally specific nor managed by community foundations. These are independent, *free-standing endowment funds*. While many of these funds struggle to meet their goals, some have been highly successful. Women's funds, held in many communities, are a good example of this model. Some are established in affiliation with community foundations, but many are free-standing funds. These often start with a broad spectrum of donors already committed, some even fanatically committed to the need and benefit of having the women's fund. The group includes those of modest means and great wealth, a variety of ages, many highly engaged and active in support of causes and programs and readily identified and easily mobilized volunteers. This group then approaches other women as potential donors to endowments with broad use in support of women's development programs and activities. This demonstrates a successful approach for a fund that has a very specific focus.

*Human resources for endowment-building organizations*

At a minimum, effective endowment-building organizations may require commitment of human resources—both professional staff and volunteers—in the following key areas:

- *Development leadership* -- A paid professional with experience in major gift solicitation may be helpful to oversee endowment-building activities. Successful endowment fund-raisers require an entirely different set of skills than the typical nonprofit executive uses in fund raising through annual memberships, special events, tournaments, banquets, and other routine activities to support their organization.
- *Volunteer Solicitation* – Volunteers are important in soliciting endowment gifts. Attracting board members who will lead this effort is critical to long-term success, as they can make individual visits to peers who have the capacity to make endowment gifts.
- *Investment committee* – This volunteer committee should be composed of professionals who understand compliance with the Prudent Investor Act and who have the ability to set policy and monitor performance. While not paid, the committee members require the highest level of expertise in this area. Monitoring the investment of public endowment funds is far different from managing one's personal portfolio.
- *Grants committee* -- The volunteer grants committee is actively engaged in the process of setting policy and procedure for grants, monitoring results, and determining philosophy of loans, gifts, and grant strategies. It is difficult to determine whether this committee should be made up of professionals who have expertise in the area, a committee of other volunteers or some blend of both. Staff or professionals who operate under the guidelines set by a volunteer board or committee may handle grant decisions.

Development of terms of service and a process for renewal and replacement of all committees is especially important. Finding these volunteers is critical to the long-term success of endowment building efforts.

*Challenges in building endowments*

Charities face several challenges when creating an endowment: (1) finding investment expertise, (2) preventing invasion of principal, (3) dealing with failure to grow and (4) recognizing possible changes by future board leadership.

*Investment expertise:* If a charity is going to handle its own endowment (that is, the investment and management of the endowment fund), it must have on board or staff investment expertise to establish policies, procedures and operations. Day-to-day transactions and the actual handling of investments is generally contracted to professionals. However, the board must provide careful monitoring and oversight. Boards are usually selected for expertise in the subject matter and program areas of the organization, not in investment and financial decisions. Too often the board is either changed to attract investment expertise at the expense of program knowledge and guidance, or those who are not qualified in areas of investment agree to assume responsibility without having the proper knowledge.

*Invasion of principal:* Because the endowment is not a separate legal entity and because in many cases those donors who placed restrictions on the gifts are no longer around, the temptation to invade principal becomes great in times of duress. Some organizations that control their own endowments apparently ignore donor intent and "borrow" from their endowments to sustain themselves during difficult times. The "borrowing" is done with the intention to repay, sometimes even including a reasonable rate of interest. In reality, however, borrowing is often merely the first step of a generally declining or dying organization. The only way to assure the protection of principal is to have the endowment managed by another organization, thus prohibiting invasion of the principal.

*Failure to grow*: Energy, good intention, and high expectations accompany the development of an endowment effort. However, building an endowment fund is long, slow work. It requires sustained effort, patience, commitment and awareness that most endowment gifts are made through wills or planned gifts.

*Decisions by future board leadership:* The fact that future boards may change the original board commitment is a real problem. Endowments created by board decision are not binding on future boards. In the case of donor-directed endowments, ethical practices guard against invasion of those endowments.

## Endowment fund raising

Successful endowment fund raising is dependent on numerous factors. These include setting realistic goals, identifying prospective donors, obtaining assistance from others, and perhaps most important, preparation for and persistence in solicitation activities.

*Establishing the goal*

Any endowment campaign should establish a dollar denomination goal. This amount may not be announced in the media as a public campaign, but should help the board and staff develop a plan to achieve that goal. Endowment goals are generally based on the desired annual income from the endowment. However, the goals should be tempered with an understanding of what an endowment can realistically provide.

For most organizations, earnings from an endowment represent less than 25 percent of their annual expenditures. This broadly generalized figure indicates the percentage of overall operating money that is produced by an endowment as opposed to the amount that is raised from other sources.

The amount of revenue generated annually will depend on several factors but, fundamentally, it will be determined by the amount of capital raised and the fund's investment performance. The investment performance includes interest, dividend, and appreciation. The commonly accepted practice is to spend 5 percent or less of the endowment value on an annual basis. It is computed as 5 percent of the current market value of the principal based on annual total return. This practice specifies the size of the endowment needed to meet a specific need. For example, if $100,000 is annually needed, the endowment would have to be equal to or greater than $2 million (5 percent times $2,000,000 equals $100,000).

Spending more than 5 percent of the endowment value will, over time, erode the principal. Anything less than this is very conservative, and, while it will grow the endowment more rapidly, it may not provide the benefit the organization seeks for annual operations. Using the arithmetic of a 5 percent distribution from the endowment, it is easy to see that the organization has to multiply its annual operating budget by 20 if it expects the endowment fund to cover the entire cost of operations. Because such an expectation is unrealistic, each organization should assess the likelihood of reaching its endowment campaign goals, the time which it will take to reach those goals, and the resources – time and people – that it is able to spend on building the endowment.

In establishing the endowment goal, the organization should also consider the size and giving history of the donor base, willingness of board members to make introductions and presentations, availability of staff, financial resources expendable for printing and distributing collateral material, and availability of a communication program. Even a modest endowment campaign, based exclusively on wills, can produce good results. Case histories in small organizations that have consistently and thoughtfully requested bequests verify the success of such efforts.

While endowment goals for program activities are generally set on the basis of desired earnings from the endowment, the goals are often unrealistic. Community foundations, for example, dedicated to building community endowments for all areas of the community (health, welfare, education, culture, recreation, environment, etc.) may take five years to reach $5 million to $10 million. The process is long term. More realistic is to define the early goal on the basis of total assets in the fund over the defined period. For example, if $1 million is raised within five years, managers should expect 5 percent or $50,000 available annually.

*Preparation and persistence*

Seeking contributions to endowment funds requires a different approach than raising annual money or capital campaign money. Generally speaking, endowment campaigns are not conducted for broad participation at very modest amounts. It would not be wise to try to build an endowment with $100 gifts from thousands of people.

To a large degree, endowment gifts are classified as major gifts. This term generally applies to a dollar denomination that is significantly above what the average gift to most institutions would

be on an annual basis. While the dollar denomination of a major gift varies by organization, usually the minimum is $5,000 or more. Because many gifts are made in the forms of appreciated securities or planned gifts, the average gift to an endowment is probably two-to-five times that size. Whether the donation is $5,000, $50,000, or $500,000, the solicitation of major gifts is considerably different from solicitation of annual contributions. Careful preparation is key.

The endowment donor will be interested in how the organization uses endowment funds. This query will cover investments as well as programs and activities. Typically, a donor will ask, "How is my money going to be invested? What is it expected to return? How will the proceeds be used?" Because an endowment gift is so often a planned gift, the donor must understand the organization, its programs and its commitment to success, since the donor may not be around to watch the use of the funds. Thus, the endowment fund-raiser must be prepared with thorough information that will provide the answers a potential donor seeks.

Endowment growth is a long-term activity. Money and time are invested at the front end to produce gifts that may be realized three, five, or ten years in the future. A regular program of contact, solicitation, and follow-up is essential. Persistence is a necessary trait in endowment fund-raisers.

*Support and assistance*

Obtaining support and assistance from key constituents and allies is crucial:

*Board members* must be active participants, taking time to make individual visits and discuss the endowment option with prospects. Board members must sign on for the long term, not necessarily asking for "big" contributions (unless the organization is working with a challenge grant) but building donor relations.

*Professionals* such as lawyers, CPAs and others who assist with estate planning should be aware of the community organizations that are building endowments. Many times it is through these professionals that major planned gifts are secured. It is important that each organization devise a strategy for working with professionals.

*Media* are crucial players. People generally don't make donations to endowment funds without knowing that the organization is seeking endowment gifts. When economic times are good, the likelihood of the unexpected "windfall big gift" is greatly increased if the organization makes known its desire to build an endowment. Therefore, organizations must work diligently to secure a modest amount of publicity—both through in-house publications and the public media.

*Community foundations* can also be key collaborators. Foundations can hold *designated* or *agency* endowments specific to a single organization. This arrangement relieves the organization of the responsibilities for investing and managing those funds. An added benefit is that small endowments can then become part of significantly larger investment pools.

Community foundations also offer specific *field-of-interest funds*. Such funds allow organizations providing the same types of services to collaborate in building a single endowment fund that benefits the broadly defined field of interest (for example, early care and education) rather than specific organizations. This approach has a number of benefits. For example, in addition to each organization's current donors, field-of-interest fund raising can also involve

outreach to a broad range of donors that the community foundation identifies, potentially resulting in greater overall donations.

*Donor prospects*

Identification of key donor prospects is critical. Endowment funds come in various amounts and from various sources. One of the most commonly held beliefs about endowment gifts is that they only come from the rich. The reality is that endowment funds are built with a variety of gifts – some large, some small – some current, some deferred – from donors with modest wealth to those with substantial wealth.

Moreover, as noted in the best selling book, *The Millionaire Next Door*, by Thomas Stanley, *et al.*, we are no longer able to predict who in this country has a million dollars. Frequently they are people who live modestly, would not be thought to have substantial means and have not been actively engaged in charitable giving throughout their lives.

Most endowment gifts come from those who already know the organization and are working with it. It is highly unlikely that people unknown to the organization will make endowment gifts. The exception is those who, at some point in their life, benefited from the services of the organization and may hold it in high regard. (For example, the Salvation Army routinely receives gifts from people unknown to the organization but touched by some help they provided years before.)

Yet, most organizations believe that endowments require new donors. The reasons for this misperception are several: fear that the current donor will reduce or eliminate his/her annual gift; failure to understand that not all endowment gifts are huge; lack of an intentional and systematic program of contact with current donors and prospects, and impatience.

A carefully organized endowment-building effort will touch many key constituencies in the community. The most likely candidates for gifts to the endowment are current donors to that organization. This is one reason that it is particularly difficult for new organizations to establish an endowment fund. The exception is when the organization is launched with a challenge grant from a foundation and is required to match it. In this situation, there is an excellent chance of meeting the goal.

Much time can be wasted by organizations that seek new gifts from high profile or wealthy individuals in the community if those individuals have no prior connection to the organization or no interest in the cause. Among the most promising prospects: those who have made any size gift within the last three to five years, benefited from the services of the organization, participated in a major fund-raising campaign, served as former board members or been vendors to the organization. Volunteers, although perhaps unable to make annual contributions, may be candidates for a planned gift in their wills. Other potential donors include those who are celebrating a milestone in their lives, are particularly attracted to a challenge or matching opportunity, or someone who has had a windfall receipt of funds

*Alumni and families:* Contacting those who have "graduated" from the community organization's programs and gone on to become successful and contributing citizens, regardless of whether they live in the area or have moved away, is a worthwhile effort. The national Dollars For Scholars model is helpful. Beneficiaries of their scholarships return to help as volunteers who administer the program or even establish scholarships. Relatives of those who have

benefited from the organization may be excellent prospects, but they are often overlooked as potential donors. An important prerequisite to contacting such prospects is to gather sufficient information about them to make the appeal a very personal one.

*Foundation challenge grants:* Most major, well-known charitable foundations state in their grant-making guidelines that they do not make gifts to endowments (because moving money from one endowment account into another is not productive.) However, some large foundations offer challenge grant to stimulate gifts. Creative research into the foundation's areas of interest will help match program activities and foundation priorities. Constructing an articulate plan to build endowments has sometimes released dollars for challenge grants from foundations that "don't make endowment grants." Nevertheless, unless you have key contacts in the foundation community, know what kinds of projects they fund, and can carry out a successful challenge campaign, your opportunities for endowment gifts from foundations are limited.

*Corporate contributions:* Business corporations, like foundations, are often reluctant to make endowment gifts. They view their "investment" in charitable gifts in the community as one arm of their corporate citizenship. In this respect, it is highly likely that they will desire high visibility and recognition for their contributions. It is also logical that businesses that have some relationship to the type of service provided by the organization are far more likely candidates to make gifts to that organization.

*Government funds:* Government contributors should be at the bottom of the list of likely candidates. Funds that the local, regional, state, or federal government distributes are almost always targeted for specific community needs. In addition, most government entities will not allow their funds to be set aside and invested, but require that they be spent for actual service delivery within a limited period of time.

***Keys to Successful Endowment-Building***

- Leadership for the cause is the single most important factor in the success of building the endowment. Evidence from all major gift fund raising indicates that endowment gifts are individually solicited: people give to people, not just to causes. Building a very strong, prominent and influential board to support the endowment building effort is thus absolutely essential to long- term success of the endowment.

- Endowment donors are identified and secured because of a close identification with an organization. To create that same degree of success in a broadly held community endowment requires collaborative effort, programs with currently identified donors supporting their causes, and major leadership by a group willing to make highly visible the benefits of such an endowment.

- Challenge or matching grants are generally provided by a foundation or particular donor. Some foundations may provide more than the amount that is raised in the community. The impact of a challenge grant is only successful if there is an actively engaged group of people who are committed to individual solicitations to raise the matching amount.

*Common obstacles in endowment fund raising*

Generally, obstacles to endowment-building are more internal than external. For example, the press of serving more clients, spending more money on the operation, and enlarging the programs offered by an organization all seem to take priority over endowment efforts.

Additionally, misperceptions can be obstacles that prevent effective action. Common misperceptions include negative outlooks, such as "if the monies don't come to me, they go to somebody else" or the idea that the pie is a fixed size and must be divided among the participant organizations.

Community foundations are often viewed as adversaries by organizations seeking to build their own endowment funds. Community foundations have great success at raising money, and their broad outreach throughout the community has some organizations feeling that they are "gobbling up all of the gifts in the community." The best way to prevent this perception is to collaborate with the local community foundation (if there is one) or consider starting a community foundation. Local community foundations can provide great support for the collective activities of organizations.

If the community, region, or state is thin in endowed foundations, the opportunities for securing funds for challenge grants are limited. While a few of the very largest foundations throughout the country do work nationally, most foundations prefer to work more locally, particularly small family foundations, which may be the best sources for endowment challenges. However, they are more difficult to find because they may not be listed in directories or on the Internet. In addition, they may be staffed or guided by professionals, and access to the decision-making family or board is particularly challenging.

Raising endowment gifts is somewhat more challenging than raising money for services. An endowment gift has little pull on the heartstrings nor offers immediate gratification. It is much less tangible than an organization's current programs and activities. Sometimes there is a limited time for solicitation and little chance that the donor will see the results in action. All of these factors can present significant challenges to endowment fund raising.

*Future outlook for endowments*

In recent years, the economic climate has been highly supportive of endowment gifts. The success of the stock market, the growing economy, and the prosperity mindset have been important elements in decisions to build endowments in the last decade. America has a larger number of younger wealthy than ever before. We are increasingly seeing their desire shift from simply making money to how to use it for altruistic purposes. They are actively engaged in philanthropy and eager to find solutions and "fix things." They are hands-on, information-intensive, and results-oriented. Equally important is the inter-generational transfer of wealth that is anticipated to range from $30 trillion to $120 trillion over the next several decades. Much of this money can be secured by charity if efforts are begun immediately and organizations make known the services they provide to donors who share their interest.

## Lessons for early care and education

What can be learned from successful endowment-building organizations such as higher education and cultural institutions, charities, and community foundations that can be applied to developing robust early care and education funds? Are there lessons from existing community early care and education funds to guide new efforts? Finally, what are the potential challenges and opportunities for establishing endowment funds and deriving revenue from these funds to improve the prospects for early care and education?

*Current experiments*

In recent years, several community foundations have created a community-based endowment for early care and education.[2] In assessing the potential feasibility of establishing such funds, we can learn from their experiments and experiences as well as from the information about the more traditional endowment funds and organizations explored in the previous section.

In informal interviews for this report, foundation representatives reported that the endowment-building effort was difficult in several ways: absence of an easily identified constituency, lack of specific appeal as made by individual organizations or particular programs of an organization, indefinite identification of responsibilities for fund raising, and separation of those who are potential beneficiaries from those who are potential donors. Several took longer than expected. Some matched challenge grants at some risk to other community foundation efforts.

The largest fund, The Marin Education Fund in Marin County, California, significantly increased staff to fulfill the program goals. Experience with the challenge grants that were instrumental in launching early care and education funds in Marin County and in Northeast Indiana demonstrated that it was much more challenging than expected to raise the endowment matches. The smaller community foundation participants in the Indiana program funded by the Dekko Foundation were especially challenged as they were not able to afford extra staff to complete the match requirements. The responsibility for fund raising fell entirely on the community foundation, which had to balance that area of asset development with a full range of their other activities in growing assets for their foundation. Because they had limited staff resources—not even a full time executive director in some—the challenge may not have been a realistic test of the potential for an endowment collaboration with a community foundation.

In spite of these difficulties, most of the endowment efforts in the community foundations contacted for this report eventually met their goals and essentially all agreed that the endowment was a good idea. It is too early to assess the continuing level of activity of these early care and education community endowments. Eventually, we can learn from their experiences in securing additional gifts, the impact of grants from the endowment earnings as a case for additional gifts, and general community knowledge and understanding of the fund.

[2] For more information about these funds, see Mitchell, A., Stoney, L, & Dichter, H. 2001. *Financing Child Care in the United States: An Expanded Catalog of Current Strategies, 2001 Edition,* pp. 127-129. Kansas City, MO: The Ewing Marion Kauffman Foundation. Available online: http://www.emkf.org/youth_development/childcare2001/index.cfm

*Challenges and opportunities*

The specific challenges for early care and education programs and organizations are likely the same as they would be for other nonprofits. However, developing a community-based fund designed to benefit multiple programs and provide tuition assistance for families presents different challenges.

Traditionally, endowment gifts come from individuals who have a strong and usually long connection to the organization. Creation of community endowments challenges this core concept of endowment building. The idea of building an endowment for a broad-based need such as early care and education, rather than a particular organization, raises questions of how to identify prospects, how to engage them, and on what basis to appeal to them or make the case for their support. However, the model of free-standing endowments, such as Women's Funds, suggests that broad community-based endowments for early care and education could be successfully developed.

Endowment fund raising requires a close relationship between donors, organizations, programs and results. Conditions for success of early care and education endowment funds would be significantly related to the availability of good service-provider organizations and the availability of a community foundation or broad-based, general purpose early care and education organization—and the stimulus of challenge grants.

Working with a community foundation would lend the effort considerable credibility and support. Community foundations have experience with endowment-building, enjoy broad community support through varied grants and contacts, know how to build donor relationships that lead to a variety of gifts, maintain strong boards of directors, invest in staff training for all types of endowment gifts, and live up to the obligation of serving the whole community with its multiple interests and numerous funds. Moreover, a newly established early care and education fund could be strengthened by an alliance with an organization that has been around for some years and is financially stable. The typical community foundation will have identified and worked with prospects over time and will have learned to be patient when dealing with deferred gifts and bequests.

Donors, particularly those who contribute large sums of money or property, can be expected to consider traditional, high-profile institutions and organizations first when they decide to contribute to the welfare of a community. Champions of specific causes such as early care and education must, therefore, look for various and innovative means of establishing a base of support in order to attract major gifts. Engaging potential donors is a long and intentional process that often takes years of cultivation.

Prospects for donors to an early care and education fund could include alumni, foundations, and businesses, among others.

*Alumni* Educational institutions are particularly successful in raising money because they have alumni. Could this be a useful model for early care and education? Whether or not this would be a successful strategy depends on many factors, perhaps foremost among them is whether alumni understand the value of high-quality early care and education and identify their former participation in a good program as an element in their own success. This will be a stretch for

many. Yet, those who have benefited from the services are most likely to be its greatest supporters. In the higher education model, scholarship recipients, given the resources, will later create scholarships for others. They have both the alumni relationships and the program or organization identification. Among the strongest ties would likely be the alumni of specific early care and education programs, if they can be identified in the community.

*Foundations* should be good prospects for early care and education endowments. As discussed, challenge grants to programs or organizations should appeal to the numerous foundations that support education. Careful research of these foundations and clear evidence of organizational capacity to meet the match are critical elements. The unique nature of this model's concept may well receive attention for a pilot effort. The challenge will be the long-term nature of assessment of the results. However, finding supportive foundations ought to be carefully considered, both with individual organizations and with the field at large.

*Businesses* should have a vested interest in supporting early care and education. First of all, it is good public relations. Second, the challenges and questions concerning quality and availability of child care for employees' families leave most employers with limited solutions. The success of the appeal would likely depend upon presenting the concept in a clear business plan that appeals to these business concerns and interests.

*Summary*

In sum, several lessons are clear. First, if the early care and education community can attract major donors and establish endowment funds, these could grow in value and supply sorely needed revenue to support program quality or provide financial aid to families. Second, while endowment earnings may play only a minor role in an overall plan for early care and education finance, it is an important long-term strategy to increase revenue and diversify income sources. A third lesson is to have visible, financially viable, and dependable early care and education entities that can attract charitable giving. Finally, it is evident that skilled development professionals, with an adequate budget to support their activities, are needed for building endowment funds: Knowledge and expertise in planned giving are key to courting potential donors and securing donations.

As public awareness about the value of early care and education increases, more philanthropists may well be persuaded to invest in the "futures" that are nurtured in early care and education programs. Donors to endowments typically seek stable organizations that will use their contributions to make a difference for generations to come. Thus, how early care and education organizes itself to establish endowment funds could be critical to success in this arena. Early care and education endowment-building entities could position themselves to capture the attention and interest of the "new philanthropists" who wish to make a difference with their investments.

## Potential models for early care and education community endowments

Endowment funds can be held by an organization in several ways. In this section, we look more closely at some of the approaches that the early care and education community could take to establishing endowment funds to generate revenue for direct support to the area's early childhood programs and as financial aid for families.

We explore three different models for collaborating with a *community foundation* to establish a community fund: field-of-interest fund; designated fund; and a "hybrid" fund with features of both a designated fund and a field-of-interest fund. In addition, we discuss two options for establishing a fund *independently of a community foundation*: within an existing or new early care and education "hub" organization; and a free-standing fund or organization established expressly to hold the endowment. The section concludes with some cost comparisons among several of the options.

*Collaboration with an existing community foundation*

Collaborating with an existing community foundation eliminates almost all of the additional expenses or operational requirements that are associated with endowment funds. In addition, there may be strength in collaboration with a community foundation to build the endowment fund, since their primary goal is to build endowed funds for a wide variety of community organizations and purposes. Community foundations may provide at least two basic types of endowments: *"field-of-interest"* and *"designated"* funds.

*Field-of-interest Fund*

A field-of-interest fund is defined as a fund broadly intended to support, through distribution of grants, scholarships, awards, prizes and any other variety of charitable contribution, the activities that fall within the defined field. Typically, the field of interest pertains to a region, programmatic area, or a group of beneficiaries:

- *A geographic region* – A fund is established for a particular city or county or for a local interest among a variety of cities, towns or communities.
- *Program interests* – The fund supports specific programs such as the arts, engineering, or early care and education.
- *Target audience* – Beneficiaries are in identified categories such as seniors, youth, those with special developmental needs, or women. Young children can be the target audience of an early care and education field-of-interest fund.

This type of fund identifies a community-wide need that is being addressed by a variety of organizations in different ways, and provides a vision larger than that of a single organization. Thus, it requires trust, collaboration, and farsightedness on the part of all involved. Multiple organizations may participate in the effort, with each expected to engage donors and build momentum for attracting funds. Together they create a strong message of common interest as opposed to "competing for dollars," and also benefit from centralizing management and logistics rather than duplicating expenses.

Contributions are typically made by a wide variety of donors, including substantial contributions from foundations that provide lead gifts or challenge grants and more modest funds gathered from participants to launch the effort.

Distributions from a field-of-interest fund are usually recommended through an advisory committee (usually experts in the field) because the community foundation itself is a generalist organization. In other cases, field-of-interest fund advisers might include donors themselves whose particular expertise or interest would strengthen the grant-making program.

*Advantages to a field-of-interest fund*

- *Broad support* – The real strength of a field-of-interest fund is that many people have an interest in the topic and therefore are good prospects to build the endowment. In some cases, a community foundation will even launch a field-of-interest fund itself in an area where it knows the potential for contributions is particularly good. Further, it is strengthened because in a fund that has many donors, the distinctions between large gifts and small gifts is somewhat minimized, and the idea of building a broad base of support is encouraged.

- *An identified community priority is publicly acknowledged* – The community foundation itself often takes an active role in building the endowment. While a community foundation is always a generalist and cannot devote 100 percent of its energies to any one subject or target audience, it is good at identifying community priorities and the rallying the support of a variety of philanthropic entities. The identification of early child care and education could be a high priority in many communities throughout the country.

- *Opportunities for a challenge grant* – Often the development of a field-of-interest fund is through the leadership of a particular gift or challenge grant from another foundation. Blending the programmatic interest of a private foundation and the capacity of a community foundation to raise funds has produced several models for building community-wide field-of-interest funds. The examples of Dekko Foundation, the Marin Education Fund and others that have had a challenge or lead gift demonstrate the benefit of this strategy.

*Disadvantages to a field-of-interest fund*

- *Absence of a constituency* – The single most important factor in building endowment funds is the identification of a constituency having an interest and a commitment to the cause. If early care and education, for example, is not a priority in the community and no immediate support constituency exists, few early gifts will come to the endowment, making it very difficult to build momentum and gain interest in growing the assets in the endowment.

- *Competition among agencies and programs* – Competition among participants may create problems. For example, participants may be reluctant to surrender what they feel are "proprietary donors" who may be lured into giving gifts to the field-of-interest endowment rather than to the organization itself. This problem can mollified somewhat if there is common consent to work together from the start. However, overcoming this sort of competition can be quite challenging.

- *Assignment of responsibility* – For successful growth, an endowment fund must have staff leadership. Because the community foundation itself must remain a generalist and work on behalf of all of its funds, the field-of-interest fund may need additional leadership. Hiring foundation staff with specific assignment to the field-of-interest fund helps, but that is an issue to be negotiated between the community foundation and interested constituents.

*Designated fund*

A designated fund held in a community foundation identifies a specific beneficiary organization to receive the annual distribution from the fund. The organization is named in the documents that create the fund and is followed without variance by the community foundation. The designated beneficiary organization cannot receive the income if they cease to be a qualified charitable entity or if they so dramatically change their purpose and function that they no longer provide the services defined at the time the donors made gifts to the fund.

A designated endowment fund is established for a particular organization or program. The potential to form collaborations of organizations that identify a formula for sharing the earnings is a possibility; however, the "human nature" reaction to this option may raise the question of willingness to share donors.

*Advantages to a designated fund*

- *Identified donor base* –A known group of supporters already exists who are the best potential contributors to the fund. Although there can be strong competitive "guarding" of donor names in communities with few organizations, people give to more than one organization when they are interested in a cause, and organizations concerned with the same issue often have the same donors.
- *Multiple designated funds* – Starting multiple designated funds for a number of organizations is a viable alternative to creating a larger pool of endowed assets collectively identified as benefiting early care and education. This method focuses support for a common cause by highlighting the many different organizations that provide services. Although there is some duplication of effort that would be avoided by establishing just one fund, this approach also builds a critical mass of funds with a common focus and identifies donors interested in the same cause.
- *Cy pres* –This term means "the next most similar" in layman terms. The community foundation has a responsibility to exercise stewardship over the assets entrusted to it. This responsibility includes ensuring that the organizational beneficiaries of endowed assets remain viable entities continuing the programmatic interests identified at the time contributions were made. For example, if an early childhood organization or program ceases to exist, a community foundation is required by law to exercise its judgment in finding the next most similar cause to which it can make contributions to fulfill the donors' intent to support the programmatic areas of interest. *Cy pres* is a distinct advantage from a donor's point of view, assuring careful stewardship and oversight of the distribution of assets to the causes that donors had in mind.

*Disadvantages to a designated fund*

- *Numerous small endowments* – Use of designated endowments may create a large number of very small endowment funds. If the annual distributions from the endowment are estimated to be 5 percent, it is clear that funds need to grow significantly to provide the thousands of dollars that will be needed annually by organizations to fulfill their programmatic goals. The collective grants from numerous endowments may, indeed, have some community impact, but each individual organization may feel that it has not benefited sufficiently from a few hundred or even a few thousand dollars in annual support.
- *Community impact* – The overall community impact from grants made to individual organizations or programs may not result in major support for a broadly defined category. This perception of small return on their money may damage the chances for raising additional assets for the endowment funds. This may make it necessary to publicize the grants made from each fund to gain community attention for the priority needs in a given area, such as early care and education.
- *Widely diverse criteria for the use of funds* – If a number of organizations are funded through a variety of endowments, each may decide to use the money according to their own individual needs. The result of this diversification could be viewed in a positive sense because it broadly supports the programs, activities and strategies for awards (scholarships, loans, subsidies, program grants, challenge grants, etc.) that bring attention to the field. However, it might simultaneously result in the lack of impact and some degree of anxiety if certain organizations use the funds for scholarships or loans while others use it to pay their operating expenses. Careful examination would need to be given as to whether a common set of criteria for use could be developed and agreed upon by the participating organizations, and whether or not that would be considered an advantage.

*Combining the features of field-of-interest and designated funds into a hybrid model*

A fund for the general early care and education field-of-interest, but identified with a specific organization, could avoid some of the challenges identified with a community foundation fund where this program is only one of many held by the foundation. This model would combine the features of a field-of-interest fund and those of a designated fund in a community foundation—a course that is possible if an existing umbrella organization serves as the designated "hub," assisting with fund development and overseeing the distribution of the endowment earnings.

In this design, a community foundation would hold the endowment and provide annual earnings to a designated community agency. The designated agency would be responsible for distribution of funds as financial aid to families and support to early childhood programs that participate in the system. Such a model would require a strong existing agency that has the support of the early care and education community.

*Advantages to the hybrid model*

- Reliance on the community foundation to either lead or carry out the asset building of the endowment is removed. The "hub" organization has responsibility for endowment building, coordinating with the community foundation but not relying on them.

- Each partner in this arrangement brings particular strengths to the collaboration. The "hub" organization knows the field of providers and can carry out the distribution of resources. The providers can be sources for contributions to the endowment, working through a trusted and known organization. And the community foundation holds the endowment, thus providing its benefits of investment and pooling for economies of scale.

- The service providers bring the direct contacts and trust relationship with potential donors, and have more easy access to them than any other partner in the collaboration.

*Disadvantages to the hybrid model*

- The expense of supporting another organization will drain resources that could otherwise be used for program purposes if the "hub" organization draws its operating money from the endowment fund earnings.

- The additional layer of administration provided by the "hub" organization could be confusing or complicating in explaining the endowment program to potential donors.

- It could be quite challenging to secure equal participation in endowment-building activities from the early care and education programs that would eventually receive grants from the fund managed by the hub organization. Those organizations that actively bring in endowment contributions may not want to "share" those gifts with other organizations that are not getting their share of the contributions. This could result in the need for specific organizational endowment funds (such as designated funds) rather than a pool of funds to be used to improve quality and access in early care and education programs throughout the community.

*Additional considerations on community foundations*

Most major urban areas have community foundations. These foundations are usually mature and hold substantial assets, making them likely sources for initial grants to start field-of-interest funds. They might have a large number of donors through their own field of interest activities and through their donor-advised funds who are supportive, or would be willing to support the growth of an early care and education endowment.

The large community foundation has rapport with community professionals such as estate-planning attorneys, CPAs, insurance professionals and brokers, who are all important adjuncts to endowment-building. The likelihood of long-term growth of an endowment is higher if these professionals are aware of the area of interest and have an acceptable strategy that they can recommend to their clients for potential contributions. In addition, the community foundation's track record of grant-making is an asset in securing additional contributions. Finally, the mature community foundation in the urban area is likely to conduct regular assessments, focus groups or environmental scans to determine community needs and priorities. Many of the community foundations have identified children and youth, families and education as priority areas, thus blending nicely with long-term goals of early care and education endowments.

Yet, at the same time, it is sometimes difficult to attract the attention of a community foundation in urban areas because it faces many competing demands for its resources, time and energy. Early care and education endowment building would compete with the arts, social service activities, the environment and a variety of other community priorities. In addition, there are many urban area and mature community foundations that have large numbers of donor-advised funds, and a few of them are actively engaged in working with those donors to encourage their support in particular areas of interest. Working with donor advisors is labor intensive, and frequently the community foundations are focused more on growth of new donors than on collaboration with existing donors or convening donors around areas of common interest for priority grant-making.

*Existing early care and education organizations*

An existing lead early care and education organization could establish a community endowment fund to benefit all the organizations and programs in a particular area. For example, an agency that serves as a community "hub" for early care and education finance could fill this capacity as could an organization whose mission is early care and education system coordination and advocacy.

Regardless of its specific role in the system, the lead early care and education endowment-building organization would need to have a strong presence, excellent reputation and track record, and the support of the early care and education community to hold the endowment. This model places specific responsibilities on the lead organization, including management of the fund and compliance with legal regulations, and thus requires a degree of financial and legal expertise in the organization's staff and board. The lead organization must have sufficient personnel and finances to support the community effort. The leadership of this organization should also be held responsible for some fund raising.

*Advantages of an existing early care and education organization*

- *Immediate identification with the cause* – Selection of a leading community organization that has a high profile and visibility for its support of early care and education would be an immediate advantage for endowment building and donor solicitation. Donors not only identify with the cause, but also recognize a strong track record of management, financial responsibility and program and service delivery.
- *Community impact* –A lead organization can generate attention to the need for an endowment and assure the public of the collaborative nature of the undertaking. For example, before a business is willing to contribute to a lead organization for early care and education, it wants clear evidence that there is a structure in place to handle the project and to make equitable distributions.

*Disadvantages of an existing early care and education organization*

- *Conflicting focus* – Because nonprofits are often under-funded and overwhelmingly busy with delivery of their current services and programs, they frequently have no long-term commitment to endowment; they see pressing and unsatisfied needs in the community today. The lead organization would likely face challenges to its own

resources and staff, with attention ultimately divided between regular programs and services and the endowment-building effort.

Moreover, until the endowment fund is of sufficient size that grants will have an impact on a variety of organizations, programs and activities, the community's early care and education programs that stand to benefit from the fund may have little commitment to raising money. Both diplomacy and time are required in building collaborations among nonprofits, and this extra time and attention needs to be recognized in considering the benefits and costs of this model.

- *Expense of leadership* –If the lead organization needs to hire additional staff to provide either the expertise or the leadership for the endowment-building effort, all parties must understand who is financially responsible for that additional staff and to whom that additional staff reports.
- *Board membership and priorities* – The Board must make a strong emotional and financial commitment and must also assume major responsibility for policy and decisions about how the endowment is invested and distributed. Yet, board members are often chosen with programmatic experience rather than the financial expertise needed for endowment management. In addition, board members must be willing to give time and energy over and above their regular commitment. For example, there may be an advisory committee or group that works on distributions; board participation on such a committee may be required to assure an understanding of the policies and procedures established by the lead organization.

*A free-standing endowment fund*

Many communities now hold funds that are for very specific purposes (Women's Funds, for example.) A pertinent aspect of this model is a broad spectrum of committed donors who are united by their strong, shared interest or goal. It is the donors themselves who often are active in launching the fund and who serve as volunteers to recruit and mobilize additional donors and oversee the fund. Continued commitment by donors often depends on the effectiveness of the fund's leaders.

*Advantages of the free-standing model*

- *Control* -- The organization has complete control over its mission, vision, application of its funds and decisions regarding organizational beneficiaries and participation.
- *Leadership* -- A separate organization will have identified appropriate board leadership to support its mission and programs, and will require staff to implement and fulfill its activities.

*Disadvantages of the free-standing model*

- *Expense* -- If fund raising becomes more focused on the operating expense of the organization than on the long-term beneficiary organizations, a free-standing organization will be counterproductive.
- *Competition* – Finding a constituency from which to raise funds can be especially difficult for an organization that only supports other organizations and has no programs itself. The

strong identification that endowment donors have with a particular program or organization may cause reluctance on their part to make gifts into a separate entity.

*Establishing a new organization or free-standing fund*

When there is no existing organization that is appropriate or able to establish and maintain a community endowment fund, a new organization can be formed to accomplish this. It could be an organization that would serve a coordinating or advocacy role for early care and education, an agency that focuses on entirely on fund development for early care and education-- securing and distributing funds, or something similar. Or it may be a free-standing endowment fund expressly for the purpose of generating revenue for financial aid for families and direct support to early care and education programs. Such a fund is held as a broad community endowment, similar to a field-of-interest fund in a community foundation, but it has its own legal status.

In either case, the mission to benefit a wide group of organizations and programs can be addressed through memberships, identification as associates, or even through an application process from all the qualifying organizations in the community. These decisions should be clearly articulated and defined early in the process.

The challenges to development of a separate organization or fund include:

- *Identification of a donor constituency* -- Constituents are likely to be clients or donors to other organizations -- both a potential source for contributions, but also a potential source of divisiveness.
- *Time* -- Creation of a new organization requires a variety of legal steps: development of a board, incorporation within the state, and the filing for an exemption from both state and federal taxes. These requirements take a minimum of six months. When viewed long-term, the time invested may appear quite modest; however, these organizational development stages must be endured while the new organization is trying to raise endowment.
- *Expense* --- Development of a new organization is potentially more expensive than using an existing one, particularly the ongoing revenue to support activities.

*Cost comparisons*

An endowment has a varying degree of expense involved with it. While the costs will vary wherever it is held, none of the models for endowment is without cost. It takes money to raise money, particularly in the area of endowments. Because gifts are both current and deferred and because contributions may involve highly sophisticated long-term strategies for planned gifts, there must be a budget to support the activities of any endowment-building organization. Following is an examination of three models in which an endowment may be held, and the relative costs for each.

*Collaboration with an existing community foundation*

Using an existing community foundation may be the most cost effective of the three options. Essentially, development of either designated or field-of-interest funds within a community foundation costs little. Fund agreement documents already exist with each foundation, and there may not even be legal costs for review of these documents by the beneficiary organization.

Ongoing operating expenses of the fund are borne through the assessment of an administrative fee made by the community foundation against all of its component funds. This fee ranges from as little as one-quarter of 1 percent to 1 1/2 or 2 percent of the asset value of the fund. The assessment is taken from the earnings of the fund, so no additional payments are required. The cost of investment management in a community foundation is shared among all funds in the foundation, and again, debited from the overall earnings of the foundation. Personnel, however, may require some additional expense. If the foundation desires to have active involvement by participating organizations, staffing needs should be negotiated.

*Management by an existing early care and education organization*

Using an existing organization to take the lead and to hold the endowment for the benefit of all the other organizations in town is the next most cost-effective alternative. There is potentially no extra cost to taking on this responsibility. The organization already has its exempt status, is in operation, and could easily establish an endowment account as a subsidiary fund account within its own internal systems. However, the consideration of who oversees the activity of this fund may add some level of responsibility to the lead organization that it is not currently available. This responsibility can be handled through volunteers, or it may require the hiring of outside investment analysis to assist with performance measurement and compliance of investment managers.

Additional expense might be required to improve the organization's capability to handle internal accounting and investment management and to report on the endowment to both donors and beneficiary organizations. Still additional expenses will be incurred if the lead organization cannot handle planned gifts. This level of sophisticated giving requires training far beyond that of the average fund-raiser, and if the organization does not elect to add planned giving expertise to its staff, some provision must be made for engaging consultants with this expertise.

*Establishing a new organization or free-standing fund*

Establishing a new organization is the most expensive proposition for developing an early care and education endowment. Developing a new organization involves corporate filings, legal counsel, and business licenses. This one-time startup cost is generally less than $5,000 and varies to some degree based on state requirements. However, the ongoing costs for operations of the new organization are larger.

In addition, there is expense for investment management. This cost can be borne by the funds themselves, but early efforts may require payment for investment management that exceeds the earnings until the endowment is of a sufficient size to cover its own costs. Ongoing operations also require an annual audit and investment analysis provided to both the donors and the beneficiary organizations. Also, good practice suggests an annual report to all involved because the endowed function is highly dependent on a qualified and thoughtful stewardship.

It is difficult to estimate a specific cost for starting a new organization because its operating budget depends entirely upon the degree of activity that it chooses to undertake. Some organizations may be able to survive with a modest amount of annual income, maybe less than $25,000 per year if they are run entirely by volunteers. Other organizations that require an executive director and perhaps a modest amount of secretarial support may be looking at budget expenditures closer to $50,000 or $75,000 per year, depending upon the local salary range.

## Assessing feasibility

*Community characteristics*

In considering the potential for developing community-based endowment funds for early care and education, we examined a variety of community and demographic characteristics and their potential impact on endowment fund raising by community foundations and other organizations.

*Urban and rural communities:* A common misconception is that a certain demographic profile determines the viability of endowment-building efforts. However, there are no data to support whether rural or urban communities are more promising endowment areas. While many highly publicized mega-gifts have been made by those who live in major metropolitan areas, there are frequent instances of virtually unknown individuals in rural communities throughout the country making substantial endowment gifts. Small communities and rural areas may benefit from easier communication and involvement, while larger urban areas may benefit from access to more potential donors. Both urban areas and rural communities have raised millions of endowment funds.

Rural communities have characteristics that make them good candidates for establishing an endowment fund for early care and education. Small communities in rural areas have fewer nonprofit organizations and wider community recognition of and cooperation between those organizations. Often the need is smaller in rural areas, and thus, both the dollars needed to support the activities and the goal of endowed assets to produce that income may be more manageable. Residents usually share a close sense of identity and a willingness to work together. They often have deep roots in the community, want to help friends and neighbors, want to improve the overall quality of life and reinstate services that are no longer available due to changing social and economic conditions. Finally, there is a strong likelihood that smaller communities, and especially rural ones, are better coordinated in their services, simply because there are fewer entities that need to know one another, and a stronger dependence on collaboration and interaction as part of the fabric of the community.

*Income/wealth indicators:* Community income and wealth indicators are not primary factors in the development of endowments. Gifts to endowments come from donors of all financial capabilities and, thus, any community has the potential to establish a successful fund. While those with more discretionary wealth are far more likely to make substantial philanthropic gifts, endowment gifts are generally gifts of assets rather than gifts of income. The trends in changing wealth patterns in this country and the anticipated intergenerational transfer of wealth suggest that charitable gifts, and perhaps particularly endowment gifts to philanthropic organizations, will increasingly come from a wide spectrum of individuals.

At the same time, it is important to recognize that attracting wealthy donors to make contributions into challenged areas of communities can be more difficult. Potential donors in these areas have the least discretionary income, and are, in fact, most likely the clients for these services rather than donors.

*Age factors:* Age can be a significant demographic factor in developing endowments. Although a community that is primarily made up of senior citizens is unlikely to have a high demand for early care and education, seniors are potential donors because they recognize their own children's needs in raising their grandchildren, even if they live afar. Seniors often accumulate more discretionary income once their children are raised and finished with their education. They are also good prospects for endowments through testamentary gifts, as they are beginning to address the future issues of wealth distribution and estate plans. Therefore, the distribution of seniors within the community, the proximity of nearby senior communities and the potential for linking seniors with early care and programs may be factors to consider in planning an endowment fund.

*Successful entrepreneurs:* Some sections of the country have large concentrations of entrepreneurs who have been successful in new technology and Internet businesses. There is a new movement afoot among these young entrepreneurs to form collaborative funding arrangements to support social ventures. Sometimes these efforts are coordinated through a community foundation or local group, and sometimes they are more informal. These new entrepreneur/philanthropists are especially interested in new ideas and major community issues. Not only do they bring their financial resources to bear, but they are often actively engaged in finding solutions to the challenges the endowments are designed to address.

Communities with these populations might be ideal test areas for early care and education endowments. Identifying "the match" and pitching results oriented solutions that can improve service delivery for early care and education programs could be very appealing to these energetic philanthropists.

*Assessing readiness*

In endowment fund raising, there is a close relationship among donors, organizations, programs, and results. Community early care and education leaders or a group of early care and education organizations can assess the feasibility of establishing an early childhood endowment by examining several issues specific to their situation and geographic area.

The following questions provide a starting place for assessing the feasibility of starting an early care and education endowment fund for your community:

- Is there community consensus that an early care and education endowment is a priority need?
- Is there a community foundation serving the area?
- Do any of the early care and education organizations have endowments in the community foundation?
- Does the community foundation have a field-of-interest fund for early care and education?
- Do the prospective beneficiary organizations have a history of private donations, a list of current and past donors, and the ability to communicate with them regularly?
- Who are the potential allies for the endowment, e.g., professional advisors, other endowment-building organizations, etc.?

- Are there any private foundations in the area (community, city, state, or region) with an interest in early care and education that might provide a challenge grant to jump-start the endowment fund raising?
- Are there any lead donors who support early care and education and could be approached to consider a challenge grant?
- What help is there from the local community foundation or academic institutions to support the assessment of feasibility?
- How will costs of the feasibility assessment be covered?
- Who will take responsibility for organizing the effort?
- What organizations are willing to work collaboratively to achieve the desired results?
- How will the assignment of responsibilities be handled?
- What happens if some participant organizations do not assume their share of the responsibilities?
- Is there capability to develop an implementation plan, if appropriate, at the conclusion of the assessment?
- What costs are associated with the effort and how will they be covered?
- If collaborative leadership is to be established, how will it be carried forward after the current participants are gone?

## Steps to establishing endowments

*Research and preparation*

Establishing a successful endowment requires careful research and preparation of information to present as part of the solicitation. Those who elect to make endowment contributions are particularly interested in the big picture and the long term, including how the money is to be invested and what the distributions of earnings will support.

Consider the following when preparing or implementing early care and education endowment efforts:

- *Statistical and factual evidence of the need* -- Evidence must clearly demonstrate that the number of children and/or programs needing support exceeds the available resources and that the recommended operating support will result in programs that meet quality standards and serve the target population.
- *A business plan* -- A simple business plan that structures the goals for the endowment, the costs to build it, and the strategies to distribute it is an essential part of building the endowment. Generally speaking, nonprofit organizations rarely develop business plans for their programs, but it would be a particularly important to make the case for the creation of a unique community-based early care and education endowment that will serve the entire community rather than a single organization.

- *A strong network of providers* -- The existence of capable providers who will use the resources needs to be well documented. The provider group of organizations should be well-managed, financially stable with documented results for their particular type of program or activity. It is absolutely essential to have a set of standards and perhaps even an accreditation or self-regulation procedure to assure that endowment earnings are applied where they will effectively improve the quality of services and produce good outcomes for children.

- *Demonstration of success* – Early care and education organizations should have clear evidence that the programs, activities, and organizations the endowment supports are successful.

- *Financial analysis of public money* – When seeking contributions from philanthropists, it is beneficial to have an analysis of public money used in the community: how it is applied, to which programs, and to what ends. A community should analyze what and how public funds are currently being spent and where the gaps are in services, quality, and outcomes. This type of financial analysis of how public funds are currently being spent, if not readily available, should be an essential research component prior to the development of an endowment in a community. (A similar study of private funds would be useful but may be even more difficult to gather because the classification systems of foundation grants vary widely among foundations.)

- *A review of business solutions* -- In many communities, businesses are beginning to realize that early care and education programs are essential to their ability to attract and keep key employees and that investing in high-quality programs is an investment in the future workforce. Community leaders should know what the business community is doing on these issues and whether their efforts are viewed as remediation, support, enrichment, investment in the future or merely a short-term strategy until something else is available.

- *Process for allocation of resources* -- Organizers must carefully plan how the money is to be used, how those who use it are to be monitored and evaluated, and what strategies for adjustment of those plans are in place. What amount is to be used for grants, for awards, for subsidies, for loans and for scholarships? What amount of repayment is required? How much interest is charged, if any, on loans? Who is responsible for collections and review of performance? Who is doing accreditation, and what happens if accreditation fails? How are grants allocated among competing entities? These critical design features need to be defined prior to the solicitation of endowments since they are key factors in donors' decisions to make contributions.

*Setting reasonable endowment goals*

Planners should assess the likelihood of achieving endowment campaign goals based on the resources available to carry them out. In setting a fund-raising goal for the endowment, the first step is to understand the amount of revenue an endowment can be expected to produce. Since the general practice is to spend 5 percent or less of the endowment value on an annual basis, the endowment fund-raising goal would need to be twenty times the desired income. It can be expressed in a formula as:

Annual endowment income goal x 20 = Endowment principal goal

For example, if a community with 10 early care and education programs wishes to allocate an average of $50,000 to each program as general support, the endowment principal would need to be $10 million to reach the goal of $500,000 in annual earnings: (10 x $50,000) x 20 = $10,000,000.

Conversely, if you can estimate a realistic amount to be raised in an endowment campaign, based on an assessment of your community, you could identify the amount of income this will produce simply by multiplying as follows:

Endowment principal goal x .05 = Annual endowment income goal

For example, if you believe the total amount you can raise in your community is $2 million, you could expect earnings of $100,000 annually ($2 million x .05 = $100,000), and plan how best to allocate this amount to have the maximum impact among the early care and education priority needs in your community.

*Launching the endowment*

The following steps outline the process of launching an early care and education endowment in a community served by a community foundation:

- Contact the community foundation to inquire about the level of support it offers for the development of a field-of-interest or designated fund. Some foundations will be very supportive and lead the endowment-building effort, while others will hold the endowment but not take part in raising funds.
- Determine whether to establish a *designated* or *field-of-interest* fund or a combination of the two, and assemble the likely participants to build the fund.
- Set a three-year goal to reach the desired amount of the endowment.
- Seek a challenge grant to encourage initial gifts to the fund.
- Educate the full board of each of the participating organizations and assign responsibilities. (This is a task that a steering committee often undertakes.)
- Determine if separate staff for the fund is needed and, if yes, discuss this with the community foundation.
- Ensure that the community foundation provides all necessary information on investments, handling of gifts, and making individual presentations about planned gifts.
- Establish a plan for ongoing efforts to build the endowment.

If there is no community foundation in the area, the process gets started with the following steps:

- Examine possible alternatives for building and managing a new endowment, including the advantages and disadvantages of each, e.g., using an existing umbrella organization; designating one organization to serve as an umbrella agency for the effort; starting a new organization; or establishing multiple funds managed by different organizations. It is critical that the organization holding the endowment have appropriate expertise and knowledge of endowment investments, policies, procedures, operations, and restrictions.

- Identify leaders for this effort. A hired consultant may help in this situation because staff are often too busy with their own organizations. In this case, the best solution is to hire a local permanent staff member who can learn the responsibilities from an endowment consultant who functions as trainer and guide for the process. The need for permanent staff is highly likely if there is not a collaborating community foundation.

Regardless of where the endowment is held—a community foundation or another nonprofit organization—the processes and procedures should become standardized over a three-year period. Thereafter, growth in the principal should become more apparent. Successful endowment growth is a long-term development activity. One of the most important conditions for success is persistence of effort through a regular program of contact, solicitation, and follow-up.

*Resources for building endowments*

The primary resources for building endowments are individuals who are strongly committed to the cause. Initially, there is considerable research needed, and volunteers may be able to help. Begin by talking with people who support the cause to determine their commitment to the endowment concept and potential for support. Frequently, an outside consultant does this feasibility study; however, local people talking among their own donors and colleagues can be equally effective and far less costly. Valuable information for planners is available from numerous organizations (see insert). The cooperative nature of the effort will help to present a strong case to potential funders. Particularly if there is not an established community foundation, the planning group may have surprising appeal to foundations that favor collaborative efforts.

**Resource Organizations**

- The *Association of Fundraising Professionals*, a national membership organization with 157 chapters, advances philanthropy through advocacy, research, education, and certification programs. Telephone: 703-684-0410; Website: http://nsfre.org
- The *Center on Philanthropy at Indiana University* increases the understanding of philanthropy and improves its practice through programs in research, teaching, public service, and public affairs. Telephone: 317-274-4200; Website: http://www.philanthropy.iupui.edu
- The *Foundation Center*, a national nonprofit organization, is a source of general information about philanthropy and provides materials to help identify national and regional foundations. Telephone: 212-620-4230; Website: http://fdncenter.org
- The *National Committee on Planned Giving*, a professional association for gift planning professionals, provides educational opportunities for people whose work includes developing, marketing, and administering charitable planned gifts. Telephone: 317-269-6274; Website: http://www.ncpg.org

## Next steps

The time is ripe to investigate a variety of ways to build endowments in support of early care and education. The concept of an early care and education community endowment fund has potential as a long-term strategy for generating revenue for early care and education in communities throughout the nation. Once established, endowment funds could be one source of revenue in a coordinated early care and education finance system.

Careful planning and testing will help early care and education leaders to develop reasonable expectations about the role such funds could play in an early care and education finance system. As part of the effort, it will be important to explore different endowment models and compare endowment-building strategies.

Communities could establish pilot projects to test endowment-building in different circumstances around the country. These projects could become a valuable source of information about the burgeoning importance of endowment funding. Future researchers should examine the pilot programs, as well as any existing endowments, to see how they solicit additional gifts, how challenge grants affect their ability to attain additional gifts, and how well the community understands and values the endowment funds.

## About the author

**Helen Monroe** is a nationally recognized leader in philanthropy, endowment-building and development of nonprofit organizations. She built the San Diego Foundation from a small organization, unknown even in San Diego, to one of the leading community foundations in the country. She concurrently founded and served as executive director of the Pacific American Community Foundation that was organized to create endowments for the Pacific Rim countries. This was one of the earliest international efforts to serve philanthropic interests of donors throughout the world.

Ms. Monroe is now president of the Endowment Development Institute, a management consulting firm specializing in helping philanthropic organizations.

The Endowment Development Institute works with clients to build endowments, create strategic plans, and improve overall nonprofit management and fund development. The firm's clients and projects include the Ford Foundation's Rural Poverty initiative; the Lilly Endowment's $356 million GIFT Initiative that has started or revitalized more than 95 community foundations and affiliates; the Center on Philanthropy at Indiana University; California State University at San Marcos; the Peter Kiewit Foundation, Kansas Health Foundation and Walton Family Charitable Support Organization, all of which support statewide initiatives that the Institute has created to build philanthropy.

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